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DRAFTED BY EB/ORF/FSE:WRILEY:CJR

APPROVED BY EB/ORF/FSE - MR. BOSWORTH

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TO USINT ALGIERS

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E.O. 11652: N/A

TAGS: ENRG

SUBJECT: ALGERIAN CRUDE OIL PRODUCTION AND PRICES

REF: ALGIERS 2080

1. SLIMANE BOUGUERRA, U.S.-TRAINED ALGERIAN ATTORNEY DESCRIBED AS "NEGOTIATOR" FOR SONATRACH, SPOKE BRIEFLY AND EXTEMPORANEOUSLY AT WORLD ENERGY CONFERENCE (WEC) SEMINAR ON "LEGAL ASPECTS OF INTERNATIONAL ENERGY MANAGEMENT", SEPTEMBER 25, 1974.

2. BOUGUERRA DID NOT DELIVER PREPARED SPEECH BUT GAVE BRIEF INTRODUCTORY REMARKS BEFORE ENTERTAINING QUESTIONS. HE SAID ALGERIA'S POLICY WAS TO PROMOTE DIALOGUE WITH CONSUMER NATIONS BASED ON NEW CONCEPTION OF PRODUCER/ CONSUMER RELATIONSHIP. HE CHARACTERIZED OLD RELATIONSHIP OF CONCESSION AGREEMENTS WITH WESTERN OIL COMPANIES AS
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UNSATISFACTORY BECAUSE OF LACK OF PRODUCER NATION

CONTROL.

3. ALTHOUGH OIL COMPANIES WERE REQUIRED BE GOOD CITIZENS, THEY OFTEN WERE NOT. HE CITED EXAMPLE OF COMPANIES FLARING OF ASSOCIATED GAS IN ONE YEAR EQUAL TO TOTAL EUROPEAN CONSUMPTION OF NATURAL GAS. HE SAID COMPANIES FAILED LIVE UP TO CONCESSIONAL AGREEMENTS CALLING FOR INCREASED EXPLORATION AND AFTER TRYING NEGOTIATION, ALGERIA FORCED CONCLUDE THAT UNILATERAL ACTION WAS REQUIRED.

4. BOUGUERRA SAID IN ALGERIA NATURAL RESOURCES NOW REGARDED AS POSSESSION OF STATE AND PRODUCTION IS CARRIED OUT FOR BENEFIT OF PEOPLE UNDER STATE CONTROL WITH SONATRACH AS MAJORITY PARTNER IN ANY RESOURCE VENTURE. HE SAID 10 TO 12 FOREIGN COMPANIES HAD ACCEPTED SONATRACH'S CONDITIONS AND HAD SIGNED JOINT AGREEMENTS FOR ACTIVITIES IN ALGERIA.

5. BOUGUERRA SAID ANY NEW CONSUMER/PRODUCER RELATIONSHIP WOULD REQUIRE CONTROLS ON MAJOR OIL FIRMS. THIS IS ALGERIA'S POLICY WITHIN OPEC. HE FELT IT NECESSARY TO LIMIT MAJOR OIL COMPANY PROFITS TO PRECLUDE MAJORS FROM INFLUENCING PRICES AND ENSURE END-USERS RECEIVE PETROLEUM PRODUCTS AT REASONABLE PRICES.

6. BOUGUERRA MENTIONED DISCUSSIONS WITH EC AND JAPAN AND SAID HE DID NOT BELIEVE IN LIMITING TO ENERGY AREA ONLY "INTERDEPENDENCE" PROMOTED BY PRESIDENT FORD IN ADDRESS TO WEC ON SEPTEMBER 23. INTERDEPENDENCE SHOULD TAKE ALL FACETS OF ECONOMIC RELATIONSHIP INTO ACCOUNT, INCLUDING SECURE SOURCES OF SUPPLY OF MATERIALS NEEDED BY OIL PRODUCERS FOR THEIR OWN DEVELOPMENT.

7. IN CONCLUDING REMARKS, BOUGUERRA SAID ALGERIA STRIVES FOR INTERDEPENDENCE IN FORM OF EQUALITY AMONG PARTNERS. IMPOSITION OF SINGLE POINT OF VIEW BY ONE SIDE CANNOT ACHIEVE SUCH INTERDEPENDENCE.

8. BOUGERRA ANSWERED NUMBER OF QUESTIONS FROM AUDIENCE WHICH PARAPHRASED BELOW:
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Q. HOW CAN PETROLEUM IMPORTING NATIONS PAY CURRENT HIGH PRICES FOR OIL?

A. CURRENT PRICE LEVEL FOR CRUDE PETROLEUM IS ABOUT RIGHT. MUST BE REMEMBERED PETROLEUM PRICES HAVE ALWAYS BEEN "DICTATED" AND ALL THAT HAS CHANGED IS DICTATION NOW FROM PRODUCER SIDE. WHEN ALGERIA FACED

BALANCE OF PAYMENTS CONSTRAINTS FEW YEARS AGO, NO QUESTION RAISED ABOUT HOW IT WOULD PAY FOR IMPORTS. TRADE WILL ADAPT TO NEW PRICE LEVEL.

Q. WILL OPEC ASSIST DEVELOPING COUNTRIES SEVERELY IMPACTED BY HIGH PRICES OF OIL?

A. OPEC'S FOREIGN EXCHANGE EARNINGS BEING RECYCLED TO LDCS. (UNDER PROMPTING BOUGUERRA ADMITTED FOR TIME BEING RECYCLING PRINCIPALLY FOR ARAB AND AFRICAN

COUNTRIES BUT MIGHT INCLUDE ALL DEVELOPING COUNTRIES LATER.)

Q. NEW CIRCUMSTANCES OF PRODUCER SOVEREIGNTY AND CONTROL HAVE LESSENED OIL COMPANIES' ROLE IN INTERNATIONAL OIL TRADE. WILL GOVERNMENT-TO-GOVERNMENT AGREEMENTS REPLACE FORMER OIL COMPANY INTERMEDIARY ROLE IN PETROLEUM SUPPLY MATTERS?

A. WHILE NOT ELABORATING ON HIS VIEW OF COMPANIES' FUTURE ROLE, BOUGUERRA COMMENTED THAT SINCE SUBSTANTIAL PART OF COMPANIES' ROLE HAD BEEN ASSUMED BY OPEC, HE FELT FUTURE DEALINGS SHOULD BE STATE-TO-STATE.

Q. WHAT ARRANGEMENTS DOES ALGERIA CURRENTLY MAKE IN ITS SUPPLY CONTRACTS?

A. ALGERIA CURRENTLY SELLS ON SHORT TERM BASIS, USUALLY THREE MONTH CONTRACT. WITH PROPER SAFEGUARDS, MIGHT BE POSSIBLE MAKE LONGER TERM CONTRACTS WITH ESCALATING PRICES TO HEDGE AGAINST INFLATION IN INDUSTRIALIZED COUNTRIES.
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Q. DO YOU BELIEVE IN SANCTITY OF CONTRACT?

A. YES, OF COURSE, AS LONG AS ONE PARTNER IS NOT BEING HURT.

9. BOUGUERRA STATED NECESSITY FOR NATIONAL PETROLEUM COMPANIES LIKE ENI AND ERAP (MENTIONED SPECIFICALLY) RECEIVE OIL AT PRICES COMPARABLE TO MAJOR OIL COMPANIES: THUS, IT WAS NECESSARY TO LIMIT MAJORS' PROFITS THROUGH TAX INCREASE. INGERSOLL

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